

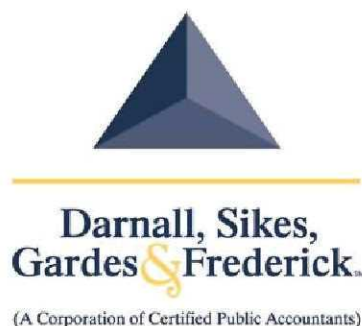
HOSPITAL SERVICE DISTRICT NO. 1
(Abrom Kaplan Memorial Hospital)
Parish of Vermilion, State of Louisiana
Kaplan, Louisiana

Financial Report

Years Ended September 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1
Parish of Vermilion, State of Louisiana
Kaplan, Louisiana

We have audited the accompanying financial statements of the Hospital Service District No. 1, Parish of Vermilion, State of Louisiana, Abrom Kaplan Memorial Hospital (the Hospital), as a component unit of the Vermilion Parish Police Jury, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, Parish of Vermilion, State of Louisiana, Abrom Kaplan Memorial Hospital, as of September 30, 2013 and 2012, and the respective changes in financial position and, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital Service District No. 1, Parish of Vermilion, State of Louisiana's financial statements as a whole. The accompanying information on pages 26 through 33 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2014, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Darnall, Sikes, Gaudes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana

March 19, 2014

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Hospital's annual financial report presents our discussion and analysis of the Hospital's financial performance during the fiscal year that ended on September 30, 2013. Please read it in conjunction with the Hospital's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased \$2.5 million during the course of this year's operations.
- During the year, the Hospital's operating revenues and non-operating income of \$14.4 million exceeded operating expenses of \$12 million.
- The Hospital had income from operations of \$.7 million during 2013 compared to \$17,000 during 2012.
- The Hospital has net position of \$27.9 million as of September 30, 2013, an increase of \$2.4 million or 9% from the previous year.

USING THIS ANNUAL REPORT

The Hospital's basic financial statements consist of three statements – a statement of Net Position; a statement of Revenues, Expenses, and Changes in Net Position; and a statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Hospital's finances begins on page 5. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position as of the fiscal year end and changes in net position for the entire fiscal year. You can think of the Hospital's net position – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE HOSPITAL AS A WHOLE

Net position. The Hospital's net position increased between fiscal years 2013 and 2012 by \$2.4 million.

Hospital's Net Position (in Thousands)		
	2013	2012
Current and other assets	\$ 27,203	\$ 24,442
Capital assets	<u>1,357</u>	<u>1,593</u>
Total assets	<u>28,560</u>	<u>26,035</u>
Current liabilities	<u>459</u>	<u>531</u>
Total liabilities	<u>459</u>	<u>531</u>
Net position		
Invested in capital assets net of related debt	1,357	1,583
Unrestricted	<u>26,501</u>	<u>23,921</u>
Total net position	<u>\$ 27,858</u>	<u>\$ 25,504</u>

Net position from the Hospital's activities increased 10.18 percent to approximately \$28.1 million. A significant component of the change in the Hospital's net position is the increase in cash, certificates of deposit, and investment securities of \$2.8 million.

Changes in net position. The Hospital's total revenues increased by 9.7 percent to \$13 million. Approximately 72 percent of the Hospital's total revenue comes from net patient services, while 67 percent of net patient service revenue is derived from Medicare and Medicaid patients.

The total cost of all services increased approximately \$165,000 or 1.4 percent from the prior fiscal year.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in Hospital's Net Position
(in Thousands)

	2013	2012
Operating revenues-		
Net patient service	\$ 10,225	\$ 9,782
Physician UPL supplement grant	1,813	1,452
Rural coalition	-	298
Other operating	740	339
Nonoperating income-		
Sales tax	1,254	1,272
Millage tax	572	535
Unrealized gain (loss) on investments	(509)	90
Other nonoperating	278	306
Total revenues	<u>14,373</u>	<u>14,074</u>
Expenses		
Salaries	3,760	3,719
Medical and other supplies	1,378	1,255
Contract fees	1,254	1,060
Management fees	1,653	1,998
Provision for bad debts	2,089	1,828
Other operating	1,885	1,994
Total expenses	<u>12,019</u>	<u>11,854</u>
Increase in net position	<u>\$ 2,354</u>	<u>\$ 2,220</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Hospital had \$1.4 million invested in capital assets.

Hospital's Capital Assets
(in Thousands)

	2013	2012
Land	\$ 59	\$ 59
Buildings and land improvements	1,999	1,999
Equipment	4,427	4,719
Construction in progress	58	-
Total capital assets	<u>6,543</u>	<u>6,777</u>
Accumulated depreciation	<u>5,186</u>	<u>5,183</u>
Net Capital Assets	<u>\$ 1,357</u>	<u>\$ 1,594</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions regarding this report or need additional information, contact Bryce Quebodeaux, Administrator, at 1310 W. 7th Street, Kaplan, LA 70548, or by telephone at 337-643-8300.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Net Position
September 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 6,029,140	\$ 4,703,054
Certificates of deposit	9,934,017	8,384,938
Investment securities, at market	4,073,827	4,543,501
Accounts receivable - patients, net	1,954,333	2,373,583
Sales tax receivable	144,052	192,759
Other receivables	18,414	76,323
Estimated third-party payor settlements	246,038	246,387
Inventory	332,931	317,822
Accrued interest receivable	183,704	83,561
Prepaid expenses	<u>215,944</u>	<u>98,327</u>
Total current assets	<u>23,132,400</u>	<u>21,020,255</u>
ASSETS WHOSE USE IS LIMITED BY THE BOARD FOR CAPITAL IMPROVEMENTS		
Cash	1,237,938	808,390
Certificates of deposit	2,413,073	2,412,983
Investment securities, at market	<u>177,097</u>	<u>200,185</u>
	<u>3,828,108</u>	<u>3,421,558</u>
PROPERTY, PLANT, AND EQUIPMENT, net		
Land	58,893	58,893
Construction in progress	58,380	-
Depreciable assets, net accumulated depreciation	<u>1,239,617</u>	<u>1,534,611</u>
Total capital assets, net of accumulated depreciation	<u>1,356,890</u>	<u>1,593,504</u>
TOTAL ASSETS	<u>\$28,317,398</u>	<u>\$26,035,317</u>

LIABILITIES AND NET POSITION

	2013	2012
CURRENT LIABILITIES		
Accounts payable	\$ 209,672	\$ 306,042
Current portion of obligation under capital lease	-	10,425
Accrued wages	67,560	62,160
Accrued vacation	127,084	118,578
Other payables	54,744	33,737
Total current liabilities	459,060	530,942
NET ASSETS		
Invested in capital assets, net of related debt	1,356,890	1,583,079
Unrestricted	26,501,448	23,921,296
Total net position	27,858,338	25,504,375
TOTAL LIABILITIES AND NET POSITION	\$28,317,398	\$26,035,317

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE		
Net patient service revenue	\$ 10,225,493	\$ 9,781,848
Other revenue	<u>2,552,666</u>	<u>2,088,911</u>
Total revenue	<u>12,778,159</u>	<u>11,870,759</u>
OPERATING EXPENSES		
Salaries	3,760,055	3,719,406
Employee benefits	135,297	144,595
Equipment rental	66,029	64,962
Medical and other supplies	1,378,062	1,255,020
Contract fees	1,253,915	1,060,123
Dietary expenses	95,881	98,249
Professional fees	51,088	72,103
Management fees	1,652,559	1,997,606
Other fees	61,168	67,777
Insurance	588,630	536,022
Utilities	204,601	196,464
Telephone	78,655	79,676
Other	256,867	220,651
Depreciation	347,038	512,475
Provision for bad debts	<u>2,088,518</u>	<u>1,828,483</u>
Total expenses	<u>12,018,363</u>	<u>11,853,612</u>
Income from operations	759,796	17,147
NONOPERATING INCOME	<u>1,594,167</u>	<u>2,203,005</u>
Increase in net position	2,353,963	2,220,152
NET POSITION		
Balance, beginning of year	<u>25,504,375</u>	<u>23,284,223</u>
Balance, end of year	<u>\$27,858,338</u>	<u>\$25,504,375</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and other third - party payors	\$ 11,169,693	\$ 10,605,256
Cash paid to suppliers of goods and services	(6,075,734)	(5,836,802)
Cash paid to employees for services	<u>(3,703,800)</u>	<u>(3,706,694)</u>
Net cash provided by operating activities	<u>1,390,159</u>	<u>1,061,760</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Millage collections	571,640	534,562
Sales tax receipts	<u>1,302,212</u>	<u>1,308,858</u>
Net cash provided by noncapital financing activities	<u>1,873,852</u>	<u>1,843,420</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(110,425)	(126,341)
Principal paid on capital debt	(10,425)	(24,337)
Interest paid on capital debt	<u>(172)</u>	<u>(930)</u>
Net cash used by capital and related financing activities	<u>(121,022)</u>	<u>(151,608)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(9,567,402)	(10,042,770)
Redemptions of certificates of deposit	7,994,770	13,045,619
Purchases of investment securities	(402,085)	(4,452,844)
Sales of investment securities	386,280	-
Net increase in assets whose use is limited	(406,549)	(82,014)
Interest received on investments	106,534	177,166
Other	<u>71,549</u>	<u>131,703</u>
Net cash used by investing activities	<u>(1,816,903)</u>	<u>(1,223,140)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,326,086	1,530,432
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,703,054</u>	<u>3,172,622</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,029,140</u>	<u>\$ 4,703,054</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Cash Flows (Continued)
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF REVENUES IN EXCESS OF EXPENSES PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 759,796	\$ 17,147
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	347,038	512,475
Change in assets and liabilities:		
Accounts receivable - patients	419,250	447,654
Estimated third-party payor settlements	349	174,647
Other receivables	57,908	(59,320)
Inventory	(15,109)	(16,845)
Prepaid expenses	(117,617)	(47,066)
Accounts payable	(96,370)	5,171
Other payables and accrued expenses	<u>34,914</u>	<u>27,897</u>
Net cash provided by operating activities	<u>\$ 1,390,159</u>	<u>\$ 1,061,760</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hospital Service District No. 1 (referred to as the "Hospital") is a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the government body with oversight authority.

Nature of Business

The Hospital provides a variety of healthcare services including: 1) in-patient services such as acute, psychiatric and skilled nursing; 2) out-patient services such as diagnostic and therapeutic ancillaries, emergency room, and physician specialty clinics; and 3) other services.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual method. The Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the *Louisiana Governmental Audit Guide*, and the *Audit and Accounting Guide – Health Care Organizations*, published by the American Institute of Certified Public Accountants, and standards established by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Method of Accounting

GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures* which establish financial reporting standards for state and local governments. These statements establish that the financial statements should consist of management's discussion and analysis (MD&A) to provide an analytical overview of the entity's financial activities, basic financial statements, and required supplementary information (RSI) as required by other GASB statements.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which include a statement of net position, a statement of revenue, expenses, and changes in net position; and a direct method statement of cash flows. It requires the classification of net position into three components – invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were no restricted assets for years ended September 30, 2013 and 2012.
- Unrestricted – This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Hospital considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. The caption “cash and cash equivalents” does not include amounts whose use is limited.

Accounts Receivable

The Hospital uses the allowance method to account for uncollectible accounts receivable.

Inventory

Inventory is stated at the lower of cost or market, with cost determined by the first-in, first-out, (FIFO) method.

Income Taxes

The Hospital is a political subdivision and has been ruled exempt from federal and state income taxes; therefore, no provision for income taxes is necessary.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment

Purchased fixed assets are stated at cost and donated fixed assets are stated at fair market value at the time of donation. Depreciation is computed on the double declining balance method for assets purchased prior to January 1, 1970, and on the straight-line method for assets purchased after January 1, 1970. The estimated useful lives, as recommended by the American Hospital Association, are as follows:

Buildings and Land Improvements	15-50 years
Equipment	5-25 years

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments, under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

The Hospital's policy allows full-time employees to carry forward annual leave beyond the fiscal year end. Full-time employees earn a maximum of 10 to 20 days of annual leave per year based upon the employee's length of service. Accordingly, annual leave has been accrued as a liability in the financial statements at the current pay rate of the employee in effect as of the balance sheet date.

Operating and Nonoperating Revenues

Operating revenues and expenses of the Hospital consist of charges for services and the costs of providing those services, including depreciation. All other revenues and expenses are reported as nonoperating.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

The Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 introduced and defined deferred outflows of resources and deferred inflows of resources as consumption and an acquisition, respectively, of net assets by the government that is applicable to a future reporting period. It also identifies net position, rather than net assets, as the residual of all elements presented in a statement of net position.

NOTE 2 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consists of funds designated by the Board of Directors to be used for capital asset acquisitions and improvements.

NOTE 3 CASH AND INTEREST-BEARING DEPOSITS

Under state laws, the Hospital may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Hospital may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2013, the Hospital has cash and interest-bearing deposits, including certificates of deposit, (book balances) totaling \$19,614,168.

These deposits are stated at cost, which approximates market. Under state laws, the deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at September 30, 2013, are as follows:

	Kaplan State Bank	Vermilion Bank	Iberia Bank	Edward Jones
Bank balances	<u>\$ 11,065,950</u>	<u>\$ 5,618,744</u>	<u>\$ 1,515,000</u>	<u>\$ 1,689,000</u>
Federal deposit insurance	\$ 500,058	\$ 500,000	\$ 250,000	\$ 1,689,000
Pledged securities (category 3)	<u>8,917,782</u>	<u>5,746,206</u>	<u>1,390,374</u>	<u>-</u>
Total	<u>9,417,840</u>	<u>6,246,206</u>	<u>1,640,374</u>	<u>1,689,000</u>
Excess (shortage) of coverage	<u>\$ (1,648,110)</u>	<u>\$ 627,462</u>	<u>\$ 125,374</u>	<u>\$ -</u>

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 3 CASH AND INTEREST-BEARING DEPOSITS (Continued)

Pledged securities in Category 3 include uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Hospital's name. Even though the pledged securities are considered uncollateralized (Category 3), Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Hospital that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 4 CERTIFICATES OF DEPOSIT

The Hospital held the following certificates of deposit at September 30, 2013:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>
<u>Current Assets:</u>			
Iberia Bank	\$ 300,000	0.65%	11/25/13
	865,000	0.75%	04/30/14
	<u>1,165,000</u>		
Vermilion Bank & Trust Co.	\$ 100,000	0.25%	09/21/14
	750,000	0.35%	10/26/13
	275,000	0.35%	11/13/13
	600,000	0.35%	11/29/13
	200,000	0.35%	01/22/14
	200,000	0.35%	01/31/14
	200,000	0.25%	03/09/14
	200,000	0.25%	03/20/14
	774,615	0.35%	10/25/13
	<u>3,299,615</u>		
Kaplan State Bank	\$ 1,452,787	0.25%	09/02/14
	750,000	0.35%	10/27/13
	275,000	0.35%	11/15/13
	300,000	0.35%	11/30/13
	400,000	0.35%	02/01/14
	774,615	0.35%	10/25/13
	<u>3,952,402</u>		
Edward Jones	95,000	1.35%	10/31/16
	134,000	0.45%	08/07/14
	75,000	1.30%	11/05/13
	95,000	1.35%	11/05/13
	95,000	1.35%	11/12/13
	95,000	1.35%	11/12/13
	174,000	1.15%	02/04/14
	87,000	1.25%	02/14/14
	75,000	1.05%	05/18/15
	245,000	1.05%	05/11/15
	247,000	2.25%	05/02/19
	100,000	1.20%	06/05/18
	<u>1,517,000</u>		
	<u>\$ 9,934,017</u>		

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 4 CERTIFICATES OF DEPOSIT (Continued)

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>
Kaplan State Bank	\$ 200,000 <u>200,000</u>	0.55%	10/08/13
Vermilion Bank & Trust Co.	10,286 400,000 <u>1,452,787</u> <u>1,863,073</u>	0.25% 0.35% 0.25%	04/25/14 01/23/14 08/18/14
Iberia Bank	<u>350,000</u>	0.75%	04/30/14
	<u>\$ 2,413,073</u>		

NOTE 5 INVESTMENT SECURITIES

Investments are reported at their fair values in the statement of revenues, expenses, and changes in net position. Unrealized gains and losses are included in the change in net position in the statement of revenues, expenses, and changes in net position. Investments consisted of the following as of September 30, 2013:

	<u>2013</u>	
	<u>Cost</u>	<u>Market Value</u>
Government Bonds	\$ 2,429,496	\$ 1,992,630
Municipal Bonds	<u>1,941,962</u>	<u>2,081,197</u>
Total	<u>\$ 4,371,458</u>	<u>\$ 4,073,827</u>
<u>Assets whose use is limited:</u>		
Government Bonds	\$ -	\$ -
Municipal Bonds	<u>196,430</u>	<u>177,097</u>
Total	<u>\$ 196,430</u>	<u>\$ 177,097</u>

Fair Values of Financial Instruments

Effective for the fiscal year ended September 30, 2013, the hospital adopted FASB Accounting Standards Codification Topic 820, "Fair Value Measurements (Topic 820)." Topic 820 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements.

These levels are:

- Level 1 - inputs are based upon adjusted quoted prices for identical instruments traded in active markets.

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 5 INVESTMENT SECURITIES (Continued)

- Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.
- Level 3 - inputs are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Fair Value of Assets Measured on a Recurring Basis

The Hospital's investments in securities with readily determinable fair values are recorded at fair value based on quoted market prices. For those investments, where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Hospital relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities.

The following table presents the fair value at September 30, 2013, for each of the fair value hierarchy levels:

	2013		
	Level 1	Level 2	Level 3
Government/Agency Obligations	\$ -	\$ 1,992,630	\$ -
Municipal Bonds	-	2,258,294	-
Total	<u>\$ -</u>	<u>\$ 4,250,924</u>	<u>\$ -</u>

NOTE 6 ACCOUNTS RECEIVABLE

Accounts receivable are shown net of provision for doubtful accounts of \$603,242 and \$456,247 at September 30, 2013 and 2012, respectively, and contractual allowances of \$371,464 and \$375,809 for 2013 and 2012, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation for the years ended September 30, 2013 and 2012:

	2013			
	September 30, 2012	Additions	Deletions	September 30, 2013
Land	\$ 58,893	\$ -	\$ -	\$ 58,893
Land improvements	130,141	-	-	130,141
Construction in progress	-	58,380	-	58,380
Buildings	1,868,739	-	-	1,868,739
Fixed equipment	1,826,213	-	238,608	1,587,605
Major moveable equipment	2,805,467	36,798	104,119	2,738,146
Other moveable equipment	87,106	15,247	1,666	100,687
Total	6,776,559	110,425	344,393	6,542,591
Accumulated depreciation	5,183,055	345,116	342,470	5,185,701
Net	<u>\$ 1,593,504</u>	<u>\$ (234,691)</u>	<u>\$ 1,923</u>	<u>\$ 1,356,890</u>

	2012			
	September 30, 2011	Additions	Deletions	September 30, 2012
Land	\$ 58,893	\$ -	\$ -	\$ 58,893
Land improvements	104,436	25,705	-	130,141
Buildings	1,868,739	-	-	1,868,739
Fixed equipment	1,826,213	-	-	1,826,213
Major moveable equipment	2,758,331	100,636	53,500	2,805,467
Other moveable equipment	87,106	-	-	87,106
Total	6,703,718	126,341	53,500	6,776,559
Accumulated depreciation	4,724,080	512,475	53,500	5,183,055
Net	<u>\$ 1,979,638</u>	<u>\$ (386,134)</u>	<u>\$ -</u>	<u>\$ 1,593,504</u>

For September 30, 2012, the accumulated depreciation on assets under capital lease was \$75,878. For the fiscal year ended September 30, 2013, the Hospital did not have any assets under capital lease.

NOTE 8 CHANGES IN LONG-TERM DEBT

The Hospital had long-term debt relating to compensated absences and paid off an obligation under a capital lease during the year ended September 30, 2013. The following is a schedule of the changes in long-term debt:

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 8 CHANGES IN LONG-TERM DEBT (Continued)

	Balance 9/30/2012	Increases	Decreases	Balance 9/30/2013
Obligation under capital lease	\$ 10,425	\$ -	\$ 10,425	\$ -
Accrued annual leave	118,578	8,506	-	127,084
Total long-term debt	<u>\$ 119,330</u>	<u>\$ 8,506</u>	<u>\$ 10,425</u>	<u>\$ 127,084</u>

NOTE 9 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Commercial

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Medicare

In-patient acute care services rendered to Medicare program beneficiaries are paid at per diem rates. In-patient non-acute services, certain out-patient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Psychiatric services (BHU) rendered to Medicare program beneficiaries are paid at prospectively determined rates.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

In-patient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. During the years ended September 30, 2013 and 2012, the following revenues were obtained from these programs:

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 9 NET PATIENT SERVICE REVENUE (Continued)

	<u>2013</u>	<u>2012</u>
Medicare and Medicaid gross patient charges	\$ 9,177,471	\$ 9,661,115
Contractual adjustments	<u>2,806,054</u>	<u>3,239,501</u>
Net Medicare and Medicaid patient service revenue	<u>\$ 6,371,417</u>	<u>\$ 6,421,614</u>
Net patient service revenue	<u>\$ 10,225,493</u>	<u>\$ 9,781,848</u>
Percent of Medicare and Medicaid net service revenue to net patient service revenue	<u>62%</u>	<u>66%</u>

NOTE 10 JOINT VENTURE AGREEMENT

The Hospital entered into a joint venture agreement with Acadian Homecare, Inc., a Louisiana corporation, for the purpose of managing a branch office in Kaplan, Louisiana to provide out-patient home health services. This agreement provides the Hospital a 33% interest in the profits and losses and/or liabilities that result from the venture, provided however that the Hospital's liability for said losses shall not exceed the sum of its capital contributions and the aggregate distributions received by the Hospital under the joint venture. The joint venture pays the Hospital quarterly for the Hospital's share of profits and pays \$1,000 per month to lease Hospital owned facilities and equipment. Revenue derived by the Hospital from the joint venture totaled \$67,289 and \$56,219 for the years ended September 30, 2013 and 2012, respectively.

NOTE 11 REVENUE RECOGNITION - PROPERTY TAX

The Hospital receives funds from a property tax which was adopted by the voters of Vermilion Parish. The parish tax is levied each year by the Vermilion Parish Tax Assessor on November 15 based upon the assessed value on the previous January 1 of all real and business personal property within the Parish. The assessed value of the property on the tax rolls as of January 1, 2012 was approximately \$75 million.

The tax becomes due on November 15 and is considered delinquent if not paid by December 31. Most of the property tax revenues are collected during the months of December, January, and February. During May of the subsequent year, properties with delinquent taxes are advertised for auction by the Parish Sheriff. The auction is normally scheduled for June or July. It is at this time a lien is placed on the property. Properties not sold at the auction are adjudicated to the State of Louisiana.

After considering tax exemptions, the net amount of property taxes received by the Hospital was \$571,640 and \$534,562 for the years ended September 30, 2013 and 2012, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 12 SALES TAX REVENUE

A one percent sales tax proposition was approved by voters for a 10-year period effective April 1, 2011. Proceeds of this sales tax are dedicated towards the costs associated with operating, maintaining, and improving the facilities of the Hospital related to providing emergency medical service. Revenue for the years ended September 30, 2013 and 2012 totaled \$1,253,506 and \$1,272,178, respectively.

NOTE 13 PENSION PLAN

The Hospital has a compulsory defined contribution pension plan covering all employees. Employee and employer each contributed four and one half percent of annual pay. Total pension expense for the Hospital for the years ended September 30, 2013 and 2012 was \$128,645 and \$144,595, respectively.

NOTE 14 CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE

The Hospital, located in Kaplan, Louisiana, grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements in which payment collection is significantly certain. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the following table. Changes in federal or state legislation or interpretations of rules could have a significant impact on the Hospital's operations. Revenue from patients and third-party payors were as follows:

	<u>2013</u>	<u>2012</u>
Medicare	48%	52%
Medicaid	17%	16%
Insurance	22%	21%
Private pay	13%	11%

NOTE 15 OPERATING LEASES

The Hospital leases equipment under non-cancelable operating leases with terms ranging from three to ten years. The following is a schedule of annual future minimum lease payments as of September 30, 2013:

2014	\$ 134,786
2015	<u>87,119</u>
	<u>\$ 221,905</u>

Rent expense under these leases totaled \$144,105 and \$63,135 for the years ended September 30, 2013 and 2012, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

NOTE 16 CONTINGENT LIABILITIES

Various malpractice suits are pending against the Hospital. These suits have been turned over to the Hospital's insurance carrier. The Hospital is fully insured should any loss be incurred, therefore, no liability is shown in these financial statements.

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No accrual for potential contingent liabilities, such as, but not limited to, those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted, and, therefore, no estimate of loss, if any, is determinable.

Third Party Cost-Based Revenues - Cost reimbursements are subject to examination by agencies administering the Medicare and Medicaid programs. The Medicare program has discontinued its cost-based reimbursement system for in-patient services. Currently, the Hospital receives a fixed fee for each patient as determined by the government using the patient's diagnosis. The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be readily determined.

ADDITIONAL INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of Net Patient Service Revenue
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
IN-PATIENT SERVICE REVENUE	\$ 6,027,133	\$ 6,655,876
OUT-PATIENT SERVICE REVENUE	<u>8,541,789</u>	<u>7,780,452</u>
	<u>14,568,922</u>	<u>14,436,328</u>
DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual allowances	3,734,923	4,134,795
Discounts	<u>608,506</u>	<u>519,685</u>
	<u>4,343,429</u>	<u>4,654,480</u>
Net Patient Service Revenue	<u>\$10,225,493</u>	<u>\$ 9,781,848</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
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Schedules of In-Patient Service Revenue
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ROUTINE SERVICES		
Room and board	\$ 846,681	\$ 913,105
SPECIAL SERVICES		
Anesthesiology	41,647	49,981
Blood administration	54,024	56,415
Electrocardiology	16,258	14,253
Emergency room	34,962	31,251
Intravenous therapy	58,803	39,178
Laboratory	231,755	247,055
Medical and surgical	407,239	512,644
Nuclear medicine	106,053	99,592
Operating room	60,879	66,496
Pharmacy	531,532	656,406
Physical therapy	47,052	32,914
Psychiatric	3,118,379	3,494,428
Radiology	83,391	46,753
Recovery room	10,962	18,165
Respiratory therapy	282,903	301,990
Speech therapy	13,453	3,780
Ultrasound	<u>81,160</u>	<u>71,470</u>
	<u>\$ 6,027,133</u>	<u>\$ 6,655,876</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
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Schedules of Out-Patient Service Revenue
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ROUTINE SERVICES		
Room and board	\$ 24,215	\$ 18,025
SPECIAL SERVICES		
Anesthesiology	119,823	114,367
Blood administration	50,984	70,152
Clinic	539,043	571,280
Dietary Consultant	78	286
Emergency room	1,868,696	1,476,638
Electrocardiology	108,679	103,072
Intravenous therapy	131,814	123,585
Laboratory	2,346,200	2,173,673
Medical and surgical	538,641	499,107
Nuclear medicine	1,157,564	1,029,229
Operating room	199,490	173,177
Pharmacy	308,908	317,750
Physical Therapy	7,943	10,745
Radiology	636,890	621,569
Recovery room	103,467	98,532
Respiratory therapy	87,027	79,457
Speech therapy	-	315
Ultrasound	<u>312,327</u>	<u>299,493</u>
	<u>\$ 8,541,789</u>	<u>\$ 7,780,452</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
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Schedules of Other Revenue
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cafeteria sales	\$ 81,780	\$ 86,116
Recovery of bad debt	93,414	120,184
Medicare TOPS/Incentive	466,391	392
Physician UPL supplemental grant	1,813,427	1,451,886
Rural coalition income	-	297,538
Joint venture income	67,289	56,219
Other income	<u>30,365</u>	<u>76,576</u>
	<u>\$ 2,552,666</u>	<u>\$ 2,088,911</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
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Schedules of Professional Expenses
Years Ended September 30, 2013 and 2012

	2013			2012		
	Professional fees, Supplies and			Professional fees, Supplies and		
	Salaries	Direct Expenses	Total	Salaries	Direct Expenses	Total
Anesthesia	\$ -	\$ 245,574	\$ 245,574	\$ -	\$ 248,012	\$ 248,012
Blood bank	-	43,285	43,285	-	54,564	54,564
Electrocardiology	-	2,129	2,129	-	9,094	9,094
Emergency room	645,399	444,694	1,090,093	633,987	423,234	1,057,221
Ambulance	-	18,000	18,000	-	15,600	15,600
Home health	-	3,871	3,871	-	2,541	2,541
Intravenous therapy	-	7,375	7,375	-	6,176	6,176
Laboratory	281,713	520,116	801,829	276,180	458,966	735,146
Medical and surgical	37,090	175,641	212,731	40,965	168,836	209,801
Medical records	118,282	63,602	181,884	111,194	67,410	178,604
Medical staff	-	14,960	14,960	-	10,387	10,387
Nuclear medicine	-	267,364	267,364	-	226,134	226,134
Nursing service	857,683	52,288	909,971	853,399	45,900	899,299
Operating room	195,944	28,798	224,742	202,946	26,877	229,823
Pharmacy	8,367	328,523	336,890	3,801	377,593	381,394
Physical therapy	-	18,543	18,543	-	18,676	18,676
Primary care clinic	241,783	112,977	354,760	259,619	120,901	380,520
Psychiatric	-	1,135,832	1,135,832	-	1,505,517	1,505,517
Radiology	242,504	120,480	362,984	231,609	71,378	302,987
Respiratory therapy	137,216	50,105	187,321	126,204	54,873	181,077
Speech therapy	-	1,381	1,381	-	672	672
	<u>\$ 2,765,981</u>	<u>\$ 3,655,538</u>	<u>\$ 6,421,519</u>	<u>\$ 2,739,904</u>	<u>\$ 3,913,341</u>	<u>\$ 6,653,245</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of General and Administrative Expenses
Years Ended September 30, 2013 and 2012

	2013			2012		
	Salaries	Professional fees, Supplies and Direct Expenses	Total	Salaries	Professional fees, Supplies and Direct Expenses	Total
Administrative	\$ 173,103	\$ 206,741	\$ 379,844	\$ 163,193	\$ 135,347	\$ 298,540
Administrative - fiscal	60,524	55,060	115,584	56,791	60,495	117,286
Administrative - other	-	97,959	97,959	-	54,293	54,293
Business office	219,610	38,528	258,138	211,685	41,155	252,840
Credit and collections	-	22,856	22,856	-	23,747	23,747
 Data processing	57,418	162,691	220,109	53,277	124,481	177,758
Dietary	160,166	171,886	332,052	162,009	171,524	333,533
Dues and subscriptions	-	48,141	48,141	-	53,294	53,294
Employee benefits	-	651,489	651,489	-	616,423	616,423
Housekeeping	162,813	44,487	207,300	154,152	45,878	200,030
 Insurance	-	152,174	152,174	-	145,832	145,832
Laundry	-	41,199	41,199	-	38,450	38,450
Linen	-	6,564	6,564	-	8,317	8,317
Personnel	-	4,423	4,423	-	3,791	3,791
Plant operations	80,991	355,728	436,719	108,589	260,670	369,259
 Printing and duplicating	-	32,255	32,255	-	25,952	25,952
Supplies, processing and distribution	79,449	6,505	85,954	69,805	3,491	73,296
Telephone and communications	-	68,528	68,528	-	66,768	66,768
	<u>\$ 994,074</u>	<u>\$ 2,167,214</u>	<u>\$ 3,161,288</u>	<u>\$ 979,501</u>	<u>\$ 1,879,908</u>	<u>\$ 2,859,409</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
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Schedules of Nonoperating Income
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Interest	\$ 206,677	\$ 174,835
Millage income	571,640	534,562
Miscellaneous	52,750	112,759
Rent	18,627	17,833
Sales tax income	1,253,506	1,272,178
Unrealized gain (loss) on investments	<u>(509,033)</u>	<u>90,838</u>
	<u>\$ 1,594,167</u>	<u>\$ 2,203,005</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
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Schedule of Commissioners, Meetings Attended and Compensation
Year Ended September 30, 2013

<u>Name of Commissioner</u>	<u>Meetings Attended</u>	<u>Compensation</u>
Ronald Menard	12	\$ 1,200
Del Dean David	12	1,200
Ivan Bourque	4	400
Winnie Broussard	10	1,000
John Francis	12	1,200
Mona Hebert	12	1,200
Paul D. Marceaux	12	1,200

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE



INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
Hospital Service District No. 1
Parish of Vermilion, State of Louisiana
Kaplan, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 1, Parish of Vermilion, State of Louisiana, Abrom Kaplan Memorial Hospital, a component unit of the Vermilion Parish Police Jury, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated February 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-001.

The Hospital's Response to Findings

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Dannall, Sikes, Gaudes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana
February 14, 2014

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedule of Prior Year Findings
Year Ended September 30, 2013

This section is not applicable.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Section I Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report

An unqualified opinion has been issued on the Hospital's financial statements as of and for the year ended September 30, 2013.

Significant Deficiencies - Financial Reporting

There were no significant deficiencies in internal control noted during the audit of the financial statements.

Material Noncompliance - Financial reporting

There were no instances of noncompliance material to the financial statements disclosed during the audit of the financial statements.

FEDERAL AWARDS

This section is not applicable.

Management Letter

This section is not applicable.

Section II Findings Relating to an Audit in Accordance with *Government Auditing Standards*

This section is not applicable.

Section III Findings and Questioned Costs Relating to Federal Programs

2013-001 Uncollateralized Bank Deposits

Finding:

Regarding security for deposits Louisiana Revised Statute 39:1225 requires "the amount of the security shall at all times be equal to one hundred percent of the amount of collected funds on deposit to the credit of each depositing authority except that portion of the deposits insured by any governmental agency insuring bank deposits, which is organized under the laws of the United States". At September 30, 2013 the Hospital had uninsured and uncollateralized deposits in the amount of \$1,648,110.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2013

Section III Findings and Questioned Costs Relating to Federal Programs (Continued)

2013-001 Uncollateralized Bank Deposits (Continued)

Cause:

The timing of reports provided by the bank did not allow enough time for the Hospital to arrange a sufficient amount of collateral to be pledged against deposits.

Effect:

Failure to have securities pledged for amount in excess of FDIC insurance coverage places the Hospital in violation of LSA-RS 39:1217.1 and subjects the deposits to risk of loss upon financial failure of the institution.

Recommendation:

We recommend the Hospital implement procedures to ensure all funds on deposit at financial institutions in excess of amounts insured by FDIC coverage are protected from loss by pledged securities in accordance Louisiana State Law.

Status:

This finding has been resolved.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Management Corrective Action Plan
Year Ended September 30, 2013

2013-001 Uncollateralized Bank Deposits

Subsequent to year end, the amount of the Hospital's securities pledged was increased to account for the drop in market value of existing pledged securities.